

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Hayes Township	County Otsego
Fiscal Year End 3-31-06	Opinion Date 5-16-06	Date Audit Report Submitted to State 7-13-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

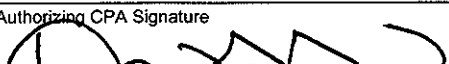
SM
N

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Daniel S. Smith, CPA		Telephone Number 989-732-1441	
Street Address 114 S. Center Ave. Suite 108		City Gaylord	State MI
Zip 49735			
Authorizing CPA Signature 	Printed Name Daniel S. Smith	License Number 1101020912	

TOWNSHIP OF HAYES
OTSEGO COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

TOWNSHIP OFFICIALS

SUPERVISOR

MARY SANDERS

CLERK

RICHARD ROSS

TREASURER

WAYNE TYLER

TRUSTEES

ROBERT DIESING

JUDITH ESTELLE

HAYES TOWNSHIP
TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	I
Management's Discussion and Analysis	II - IV
FINANCIAL STATEMENTS	
<u>Government-Wide Financial Statements</u>	
Statement of Net Assets	1
Statement of Activities	2
<u>Fund Financial Statements</u>	
<u>Governmental Funds</u>	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balance to the Statement of Activities	6
<u>Fiduciary Funds</u>	
Statement of Fiduciary Net Assets	7
Statement of Changes in Fiduciary Net Assets	8
NOTES TO FINANCIAL STATEMENTS	9 - 16
REQUIRED SUPPLEMENTAL INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	17 - 19

DAN
SMITH

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

May 16, 2006

To the Township Board
Hayes Township
Otsego County, Michigan

I have audited the accompanying financial statements of the governmental activities and the major fund of the Township of Hayes, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Township of Hayes as of March 31, 2006, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages II-IV and budgetary comparison information on pages 17-19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Daniel S. Smith, CPA

HAYES TOWNSHIP

Corner of Hayes Tower Rd. and M-32

Gaylord, MI 49735

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Hayes Township's annual financial report presents our discussion and analysis of our financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements which immediately follow this section.

Financial Highlights

Overall revenues, as presented in the Statement of Activities, totaled \$330,677, of which \$20,547 represents program revenues (charges for services and operating grants), and \$310,130 represents general revenues, primarily property tax dollars and State shared revenue.

Overall expenditures totaled \$403,210 for the Township as a whole.

The Township experienced an decrease in net assets of \$72,533, due primarily from the improvements of Township roads (\$193,352).

The registered voter count is now at 1,977.

The taxable value of the Township for the 2005 tax year was \$99,689,088, up from \$95,033,608 in 2004.

Overview of the Financial Statements

This annual report consists of three parts: the management's discussion and analysis, the basic financial statements, and supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities and/or business-type activities. The Township does not engage in business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Supplementary information further explains and supports the financial statements information with budgetary comparisons.

Government-Wide Statements

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities; this is one method to measure an entity's financial health or position.

Over time, increases or decreases in an entity's net assets is an indicator of whether financial position is improving or deteriorating.

To assess overall health of an entity, you may also have to consider additional factors such as tax base changes, facility conditions, and specific transactions.

All of the activities of the Township are reported as governmental activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They also may be created by the Township Board. Funds are established to account for funding and spending of specific financial resources and they show proper expenditure of those resources. The fund financial statements are prepared using the modified accrual basis of accounting, reporting only current transactions.

Financial Analysis of the Township as a Whole

Net Assets – the entity's combined net assets decreased during the year ended March 31, 2006, to total \$900,934, of which \$118,646 is invested in capital assets.

This condition can be traced to the items noted in the "Financial Highlights" section of this letter.

Financial Analysis of the Township's Funds

The Township has the following major fund:

General Fund – the General Fund is used to account for all activities not required to be accounted for in a separate fund. Revenues are derived primarily from property taxes and State shared revenue, with total revenues of \$330,677. General Fund expenditures totaled \$400,608. The major general fund expenditures were road repair, fire protection, and salaries.

Financial Analysis of the Township's Funds (Continued)

The Township also maintains a fiduciary fund for tax collection and disbursement activities. The Township acts as a fiduciary for assets that belong to others. These activities do not appear in the government-wide financial statements since the assets do not belong to the entity.

Capital Asset and Long-term Debt Activity

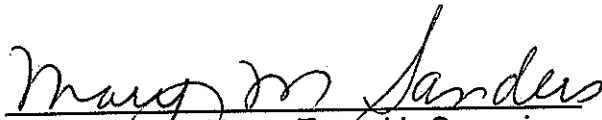
The Township made no significant capital asset purchases over the past year, nor does the Township have any long-term debt.

Known Factors affecting future Operations

The Township continues to monitor various road construction/repair projects. Improvements to Hayes Tower Road are expected over the next several years. Additionally, the Township Board will continue to be active in the planning of the Township as Otsego County continues to grow. Zoning and land use issues will continue to play an important role in the Board's decision making process.

Contracting Entity Management

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have questions concerning this report, please contact Mary Sanders, Township Supervisor.


Mary Sanders, Hayes Township Supervisor

**TOWNSHIP OF HAYES
STATEMENT OF NET ASSETS
MARCH 31, 2006**

ASSETS

Current Assets:

Cash	\$ 153,284
Certificates of Deposit	619,860
Delinquent Taxes Receivable	9,144
	<hr/>
Total Current Assets	782,288
	<hr/>

Noncurrent Assets:

Capital Assets	163,987
Less, Accumulated Depreciation	(45,341)
	<hr/>
Total Noncurrent Assets	118,646
	<hr/>

Total Assets

900,934

LIABILITIES

Liabilities:

Accounts Payable	\$ -
	<hr/>

NET ASSETS

Net Assets, Unrestricted/Unreserved	672,165
Net Assets, Reserved	110,123
Investment in Fixed Assets	118,646
	<hr/>
Total Net Assets	\$ 900,934
	<hr/>

See accompanying statements to the financial statements

**TOWNSHIP OF HAYES
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006**

	<u>P R O G R A M R E V E N U E S</u>				<u>NET REVENUE (EXPENSE) AND CHANGE IN NET ASSETS</u>
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRI- BUTIONS</u>	<u>CAPITAL GRANTS AND CONTRI- BUTIONS</u>	
GOVERNMENTAL ACTIVITIES:					
Township Administration	\$ (114,152)	\$ -	10,648	4,755	\$ (98,749)
Assessing	(40,936)	-	-	-	(40,936)
Fire Protection	(41,337)	-	-	-	(41,337)
Road Improvement	(193,352)	-	-	4,244	(189,108)
Township Hall	(4,258)	-	-	-	(4,258)
Cemetery	(1,818)	900	-	-	(918)
Unallocated Depreciation	(7,357)	-	-	-	(7,357)
Total	(403,210)	900	10,648	8,999	(382,663)
GENERAL REVENUES					
Property Taxes					89,117
Property Tax Admin. Fee					30,110
State Shared Revenue					161,080
Swamp Tax					6,722
Interest Earnings					21,498
Other					1,603
Total General Revenues					310,130
Change in Net Assets					(72,533)
Net Assets - Beginning of Year					973,467
Net Assets - End of Year					900,934

See accompanying notes to the financial statements

**TOWNSHIP OF HAYES
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2006**

	GENERAL FUND
ASSETS	
Cash	\$ 153,284
Certificates of Deposit	619,860
Delinquent Taxes Receivable	9,144
Total Assets	782,288
LIABILITIES AND FUND EQUITY	
Liabilities:	
Accounts Payable	\$ -
Fund Equity:	
Fund Balance - Undesignated, Unreserved	\$ 672,165
Fund Balance - Designated	110,123
Total Fund Balance	782,288
Total Liabilities and Fund Equity	\$ 782,288

See accompanying notes to the financial statements

**TOWNSHIP OF HAYES
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006**

TOTAL FUND BALANCE - GOVERNMENTAL ACTIVITIES PER THE BALANCE SHEET - PAGE 3	\$ 782,288
--	-------------------

Amounts reported for governmental activities in the Statement of
Net Assets (page 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not used in the funds	<u>118,646</u>
---	----------------

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES PER THE STATEMENT OF NET ASSETS - PAGE 1	\$ <u>900,934</u>
--	--------------------------

See accompanying notes to the financial statements

TOWNSHIP OF HAYES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2006

	GENERAL FUND
Revenues:	
Taxes and Assessments	\$ 89,117
State Shared Revenue	172,046
Federal Grant	4,755
Charges for Services	40,758
Interest	21,498
Rents and Royalties/Other	2,503
Total Revenues	\$ 330,677
Expenditures:	
General Government	\$ 165,919
Public Safety:	
Fire	41,337
Roads	193,352
Total Expenditures	\$ 400,608
 Excess (Deficiency) of Revenues Over Expenditures	 \$ (69,931)
 Fund Balance - Beginning of Year	 852,220
 Fund Balance - End of Year	 \$ 782,289

See accompanying notes to the financial statements.

**TOWNSHIP OF HAYES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006**

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS PER THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - PAGE 5	\$ (69,931)
---	--------------------

Amounts reported for governmental activities in the Statement
of Activities (page 2) are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives.	4,755
--	-------

Depreciation expense is recorded in the statement of activities, but not in the governmental fund financial statements	(7,357)
---	---------

CHANGES IN NET ASSETS - GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES - PAGE 2	\$ (72,533)
---	--------------------

See accompanying notes to the financial statements

**TOWNSHIP OF HAYES
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
MARCH 31, 2006**

ASSETS	
Cash	\$ <u><u>-</u></u>
LIABILITIES	
Due to Other Funds	<u>-</u>
NET ASSETS	
Net Assets	\$ <u><u>-</u></u>

See accompanying notes to the financial statements

**TOWNSHIP OF HAYES
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED MARCH 31, 2006**

RECEIPTS

Property Taxes and Interest	\$ 2,861,163
-----------------------------	--------------

DISBURSEMENTS

Property Taxes and Interest	2,861,163
-----------------------------	-----------

Change in Fiduciary Net Assets	-
--------------------------------	---

Fiduciary Net Assets - Beginning of Year	-
--	---

Fiduciary Net Assets - End of Year	\$ -
------------------------------------	------

See accompanying notes to the financial statements

**TOWNSHIP OF HAYES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE A: ENTITY

The Township of Hayes is a general law township of the State of Michigan located in Otsego County, Michigan. It operates under an elected board and provides service to its residents in many areas including law enforcement, community enrichment and human services. The criteria established for the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of Hayes Township.

The Otsego County Fire Board provides fire protection services to the Township. The Board is comprised of several governmental units in Otsego County including Hayes Township. Fire services are also provided to portions of the Township by the Otsego Lake Township Fire Department. Costs of operating both departments are shown as expenses of the general fund. The Township has no oversight responsibilities for these fire departments.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of Hayes Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Hayes Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On April 1, 2003, the Township adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

**TOWNSHIP OF HAYES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities.

Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. At this time, the Township has no business-type activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**TOWNSHIP OF HAYES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major governmental fund:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and State shared revenues.

Other Funds

Fiduciary Funds - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

**TOWNSHIP OF HAYES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls. A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 1, 2005, are recorded as revenue in the current year. The Township's taxable value for the 2005 tax year totaled \$99,689,088.

The tax rates for the year ended March 31, 2006, were as follows:

PURPOSE	RATE/ASSESSED VALUATION
General	0.8938 mills per \$1,000

BUDGET

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

**TOWNSHIP OF HAYES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGET (CONTINUED)

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on an activity level. Budgets as adopted end on March 31 of each year. There are no carryover budget items. During the year ended March 31, 2006, no over-expenditures were noted.

CAPITAL ASSETS AND DEPRECIATION

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$2,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	25 – 40
Improvements, other than buildings	10 – 20
Machinery and equipment	5 – 10
Vehicles	5 – 10

Land and construction in progress are not depreciated.

With respect to asset improvements, costs over \$1,000 should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset, or
5. In the case of streets and roads, if the work done impacts the "base" structure.
6. Other wise, the cost should be expensed as repair and maintenance.

For information describing capital assets, see Note E.

**TOWNSHIP OF HAYES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

The Township currently has no long-term debt.

USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as much, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

NOTE C: CASH AND INVESTMENTS

Cash consists of bank accounts or securities with original maturities of 90 days or less. Investments consist of certificates of deposit with original maturities in excess of 90 days.

All cash and investment deposits are maintained in financial institutions in Northern Michigan. The Township's deposits are categorized to give an indication of the level of risk assumed by the Township at fiscal year-end. The categories are described as follows:

- Category 1 – Insured or collateralized with securities held by the Township or by its agent in the Township's name.
- Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name.
- Category 3 – Uncollateralized.

**TOWNSHIP OF HAYES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE C: CASH AND INVESTMENTS (CONTINUED)

	BANK BALANCE	1	CATEGORY 2	3	CARRYING AMOUNT
Cash	\$ 163,241	\$ 40,000	\$ -	\$ 123,241	\$ 153,284
Investments	619,860	490,000	-	129,860	609,860

NOTE D: CAPITAL ASSETS

	CAPITAL ASSETS NOT DEPRECIATED	CAPITAL ASSETS DEPRECIATED		
	Land	Building & Improvements	Equipment	Totals
Governmental Activities				
<i>Capital Assets</i>				
Balance, April 1, 2005	\$ 21,000	\$ 118,672	\$ 19,560	\$ 159,232
Increases	-	-	4,755	4,755
Decreases	-	-	-	-
Balance, March 31, 2006	<u>21,000</u>	<u>118,672</u>	<u>24,315</u>	<u>163,987</u>
<i>Accumulated Depreciation</i>				
Balance, April 1, 2005	-	31,028	6,956	37,984
Increases	-	3,926	3,431	7,357
Decreases	-	-	-	-
Balance, March 31, 2006	<u>-</u>	<u>34,954</u>	<u>10,387</u>	<u>45,341</u>
<i>Capital Assets, Net</i>	<u>\$ 21,000</u>	<u>\$ 83,718</u>	<u>\$ 13,928</u>	<u>\$ 118,646</u>

Depreciation expense was not charged to functions of the Township - it is stated as "unallocated depreciation" on the Statement of Activities.

NOTE E: LONG-TERM DEBT

The Township had no long-term debt as of March 31, 2006.

NOTE F: FUND BALANCE/NET ASSETS

DESIGNATION OF FUND BALANCE/RESERVED NET ASSETS

The Township has designated/reserved fund balance in the amount of \$110,123 for the cemetery, roads, and fire protection.

**TOWNSHIP OF HAYES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2006**

NOTE G: PENSION PLAN

The Township of Hayes contributes to the Township of Hayes Money Purchase Pension Plan, which is a defined contribution pension plan. A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

Upon the date of hire, all employees over the age of 18 are eligible to participate in the plan. Contributions made by both the township and employees vest immediately. The participant will receive distributions at their election on or after the anniversary date following termination of employment. The plan requires the Township to contribute 12% of the eligible employee's wages. During the year, the Township contributed \$12,895 to the plan.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

NOTE H: CONTINGENCIES

INSURANCE

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Township Participating plan, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.

TOWNSHIP OF HAYES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES				
Property Taxes	\$ 88,500	\$ 88,500	\$ 89,117	\$ 617
Federal Grant (Equipment Grant)	-	-	4,755	4,755
State Grants:				
State Revenue Sharing	135,000	135,000	161,080	26,080
Swamp Tax	6,700	6,700	6,722	22
Metro Act	5,000	5,000	4,244	(756)
Charges for Services:				
Prop. Tax Administration Fee	25,000	25,000	30,110	5,110
Summer Tax Reimbursement	10,500	10,500	10,648	148
Interest Earnings	7,010	7,010	21,498	14,488
Rents and Royalties	500	500	1,042	542
Cemetery Lot Sales	500	500	900	400
Miscellaneous	100	100	561	461
Total Revenues	278,810	278,810	330,677	51,867
EXPENDITURES				
GENERAL GOVERNMENT				
Township Board:				
Salaries	8,160	8,160	8,260	(100)
FICA	1,000	1,000	879	121
Pension	13,500	13,500	12,895	605
Insurance/Bonds	6,500	6,500	6,268	232
Refuse Cleanup/Recycle	6,500	6,500	4,983	1,517
Postage Meter	6,000	6,000	6,442	(442)
Association Dues	2,500	2,500	2,578	(78)
Computer Software/Hardware	4,400	4,400	3,103	1,297
Education & Seminars	2,000	2,000	769	1,231
Professional Fees	2,900	2,900	1,436	1,464
Miscellaneous	2,090	2,090	855	1,235
Total Township Board	55,550	55,550	48,468	7,082
Supervisor:				
Salary	16,160	16,160	15,960	200
Rent	360	360	360	-
Telephone	340	340	419	(79)
Total Supervisor	\$ 16,860	\$ 16,860	\$ 16,739	\$ 121

TOWNSHIP OF HAYES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Election:				
Wages	\$ 800	\$ 800	\$ 528	\$ 272
Capital Outlay	300	300	4,755	(4,455)
Total Election	1,100	1,100	5,283	(4,183)
Assessor:				
Salary	38,996	38,996	38,496	500
Data Processing	2,300	2,300	1,396	904
Supplies	300	300	517	(217)
Travel	400	400	381	19
Miscellaneous	250	250	146	104
Total Assessor	42,246	42,246	40,936	1,310
Clerk:				
Salary	19,700	19,700	19,700	-
Deputy Clerk Wages	200	200	-	200
Rent	360	360	360	-
Supplies and Other	490	490	456	34
Total Clerk	20,750	20,750	20,516	234
Board of Review:				
Salaries & Wages	1,100	1,100	700	400
Treasurer:				
Salary	24,900	24,900	24,900	-
Wages	2,200	2,200	526	1,674
Supplies	1,200	1,200	1,403	(203)
Rent	360	360	360	-
Telephone/Misc.	200	200	12	188
Total Treasurer	\$ 28,860	\$ 28,860	\$ 27,201	\$ 1,659

TOWNSHIP OF HAYES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Township Hall:				
Wages	\$ 200	\$ 200	\$ -	\$ 200
Utilities	2,600	2,600	2,534	66
Lawn Care	1,000	1,000	1,000	-
Snow Removal	400	400	225	175
Repairs and Maintenance	1,000	1,000	488	512
Supplies	200	200	11	189
Capital Outlay	1,000	1,000	-	1,000
Total Township Hall	6,400	6,400	4,258	2,142
Cemetery:				
Lawn Care	2,000	2,000	1,635	365
Repairs & Maintenance	550	550	133	417
Capital Outlay	1,500	1,500	50	1,450
Miscellaneous	100	100	-	100
Total Cemetery	4,150	4,150	1,818	2,332
Total General Government	177,016	177,016	165,919	11,097
Public Safety:				
Fire Protection	43,600	43,600	41,337	2,263
Roads	200,000	200,000	193,352	6,648
Total Expenditures	420,616	420,616	400,608	20,008
Excess of Expenditures over Revenues	(141,806)	(141,806)	(69,931)	71,875
Fund Balance - Beginning of Year	852,220	852,220	852,220	-
Fund Balance - End of Year	\$ 710,414	\$ 710,414	\$ 782,289	\$ 71,875